

SEARCH

Select an area to search

Search

Home > Businesses > Help & Resources > Legal Library > Directives > Directives - By Decade > (2000-2009) Directives >

# Directive 02-4: Calculation of Trade-in Allowance on Purchase of a Motor Vehicle

Introduction: Under certain circumstances, the taxable sales price of a motor vehicle [\(1\)](#) or trailer may be reduced by a trade-in allowance. The requirements are contained in the Department's Motor Vehicle Regulation, 830 CMR 64H.25.1, and in the case of a motor vehicle being traded in as a capitalized cost reduction on a leased vehicle, in DD 97-4. This directive clarifies the calculation of a trade-in allowance in connection with the purchase of a motor vehicle or trailer where the motor vehicle or trailer traded in is subject to a lien. [\(2\)](#)

Issue: Assuming that all of the requirements of 830 CMR 64H.25.1(5)(c) are otherwise met, and the motor vehicle or trailer traded-in is encumbered by a lien, should the trade-in allowance (and the reduction in the sales price subject to tax) be based on the net equity in the motor vehicle or trailer after payoff of the debt, or the gross trade-in allowance?

Directive: If the requirements of 830 CMR 64H.25.1(5)(c) are otherwise met, the taxable sales price of the motor vehicle or trailer being purchased should be reduced by the gross trade-in allowance. If the motor vehicle or trailer will be registered in Massachusetts, the gross trade-in allowance should be reported by the dealer on Form RMV-1.

Discussion of Law:

The sales price on which tax is calculated is generally the total amount paid by a purchaser to a vendor as consideration for a retail sale, valued in money or otherwise. G.L. c. 64H, s. 1. In sales of motor vehicles and trailers involving a trade-in of another motor vehicle or trailer, the sales tax is computed on the sales price reduced by any amount credited towards the sales price by reason of a trade-in if the sale is being made by a Massachusetts dealer in the regular course of business and the purchaser either previously paid a tax on the motor vehicle or trailer traded-in or was exempt from tax on the motor vehicle or trailer traded-in. See G.L. c. 64H, s. 26 [\(3\)](#) and the Department's Motor Vehicle Regulation, 830 CMR 64H.25.1(5)(c).

The sales or use tax due on a motor vehicle or trailer is the same regardless of whether the purchaser finances the vehicle or trailer or pays cash. [\(4\)](#) Thus, when that vehicle or trailer is traded-in on the purchase of another vehicle or trailer, the same tax benefit will be accorded whether or not there is a lien encumbering the vehicle or trailer traded-in. DD 02-4 applies regardless of whether the amount of the lien on the vehicle traded in is less than, equal to, or greater than the gross trade-in allowance.

A taxpayer who has paid an incorrectly calculated sales or use tax on a motor vehicle or trailer may file an abatement claim on Form CA-6 within the time limitations of G.L. c. 62C, s. 37.

Example:

"A" purchases a motor vehicle from a Massachusetts dealer with a sales price of \$30,000. She puts down a \$5,000 downpayment and gets an auto loan for \$25,000 to be paid back over 5 years. She pays \$1,500 in Massachusetts tax when the vehicle is titled and registered. One year later, "A"

decides she wants a new vehicle and selects one at a Massachusetts dealer with a sales price of \$35,000. The dealer agrees to give her a trade-in allowance on her old vehicle of \$25,000. There is a \$20,000 outstanding balance owed to the lienholder on the vehicle to be traded in, which will either be paid off or refinanced by "A" in connection with the purchase of the new vehicle. The dealer should reflect, on the RMV-1, a gross sales price of \$35,000 and a trade-in allowance of \$25,000. Thus, the tax on the purchase of the new vehicle will be 5% of \$10,000 or \$500.

/s/Alan L. LeBovidge  
Alan L. LeBovidge  
Commissioner of Revenue

ALL:DMS:ecl

129957

April 05, 2002

DD 02-4

[ [Return to Online Legal Library](#) ]

Footnotes:

1. For purposes of DD 02-4, the term "motor vehicle" includes snow vehicles and recreation vehicles, but not other off-road vehicles such as crawler tractors, front end loaders, cranes, and similar off-road vehicles. See TIR 98-9 and 830 CMR 64H.25.1(5)(c)3. ([return to text](#))
2. This directive is applicable to trade-ins on purchases of motor vehicles or trailers only. As provided in DD 97-4, Directive 1(b), where a motor vehicle is traded in and the trade-in credit is used as a capitalized cost reduction on a leased vehicle, only the net amount applied as a capitalized cost reduction is excluded from the taxable consideration for the lease. ([return to text](#))
3. G.L. c. 64H, Â§ 27A provides similar treatment for trade-ins of boats and airplanes. However, effective March 1, 2002, airplanes are exempt from sales and use tax. See G.L. c. 64H, s. 6 (vv) and TIR 02-2. ([return to text](#))
4. G.L. c. 64H, Â§ 1 provides that the sales price subject to tax includes any portion of the sales price that is financed, whether by the vendor or a third party. ([return to text](#))